



The directors submit herewith their annual report together with the audited financial statements of Central China Enterprises Limited (the "Company") and its subsidiaries (collectively, the "Group") for the year ended 31 December 2003.

## CORPORATE INFORMATION AND PRINCIPAL ACTIVITIES

The Company is a public company incorporated in Hong Kong with limited liability.

The Company acts as an investment holding company and provides corporate management services. The principal activities and other particulars of its principal subsidiaries are set out in notes 15 to the financial statements.

The analysis of the principal activities and geographical locations of operations of the Group during the financial year are set out in note 4 to the financial statements.

## RESULTS

The results of the Group for the year ended 31 December 2003 are set out in the consolidated income statement on page 19.

The directors do not recommend the payment of a dividend for the year ended 31 December 2003.

## RESERVES

Movements in the reserves of the Group and of the Company during the year are set out in note 26 to the financial statements.

## DISTRIBUTABLE RESERVES

As at 31 December 2003, the Company did not have any distributable reserves as calculated under section 79B of the Hong Kong Companies Ordinance.

## FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 67.

## PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group and of the Company during the year are set out in note 13 to the financial statements.

## SHARE CAPITAL AND SHARE OPTIONS

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities. Details of movements in the Company's share capital and share options are set out in notes 24 and 25 respectively to the financial statements.

## BANK BORROWINGS

Particulars of the Group's bank borrowings are set out in note 23 to the financial statements. No interest was capitalised by the Group during the year.

## DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The directors of the Company during the year and up to the date of this report were:

### Executive directors

Chan Tat Chee ( <i>Chairman</i> )	(appointed on 29 October 2003)
Tang Yuk Chee, Josephine	(appointed on 10 February 2004)
Chow Ho Tung, Anthony	(appointed on 10 February 2004)
Chung Chi Shing ( <i>Deputy Chairman &amp; Chief Executive Officer</i> )	(resigned on 10 February 2004)
Lin Hoi Kwong	(resigned on 10 February 2004)
Wang Zhiqiang	(resigned on 29 October 2003)
Zhang Fan	(resigned on 29 October 2003)
Chan Chi Keung, Victor	(resigned on 31 March 2003)

### Non-executive director

Kwong Jimmy Cheung Tim	(appointed on 31 March 2003)
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### Independent non-executive directors

Lee Yu Leung	
Cham Yiu Keung	(appointed on 10 February 2004)
Lo Ka Lok, Steve	(resigned on 10 February 2004)

In accordance with Article 98 of the Company's Articles of Association, Mr. Chan Tat Chee, Ms. Tang Yuk Chee, Josephine, Mr. Chow Ho Tung, Anthony and Mr. Cham Yiu Keung shall hold office only until the forthcoming annual general meeting of the Company and being eligible, offer themselves for re-election. In accordance with Article 107(A) of the Company's Articles of Association, Mr. Lee Yu Leung retires by rotation and, being eligible, offers himself for re-election.

None of the directors has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.



## DIRECTORS' INTERESTS AND SHORT POSITIONS IN THE SECURITIES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

Save as disclosed below, as at 31 December 2003, none of the directors had or were deemed to have any interest in the share capital of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which are required have taken or deemed to have under such provisions of the SFO) or which are required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") or which are required to be disclosed pursuant to the Hong Kong Code on Takeovers and Mergers (the "Takeovers Code"), to be notified to the Company and the Stock Exchange.

Name of directors	Type of interest	Number of shares
Kwong Jimmy Cheung Tim	Personal	300,000,000
Lin Hoi Kwong ( <i>note</i> )	Personal	20,000

*Note:* Mr. Lin Hoi Kwong resigned as director of the Company on 10 February 2004.

## SHARE OPTIONS

### 1992 Share Option Scheme

In accordance with the Company's share option scheme, which was adopted pursuant to a resolution passed on 24 July 1992 and was subsequently terminated on 27 May 2002 (the "1992 Share Option Scheme"), the board of directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares of the Company in order to recognise the significant contributions of the eligible employees to the Group.

As at 31 December 2003, the number of shares in respect of which options have been granted under the 1992 Share Option Scheme was 41,500,000, representing 1.56% of the shares of the Company in issue at that date. The total number of shares in respect of which options may be granted under the 1992 Share Option Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The maximum number of shares in respect of which options may be granted under the 1992 Share Option Scheme in any one financial year shall not exceed 3% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The total number of shares in respect of which options may be granted to any eligible employee is not permitted to exceed 25% of the total number of shares in respect of which options may be granted under the 1992 Share Option Scheme, without prior approval from the Company's shareholders.

No consideration was payable on the grant of the options. Options may generally be exercised at any time during the period commencing on the first anniversary of the date of grant of such option and expiring at the close of business on the tenth anniversary thereof. The exercise price is the higher of the nominal value of the shares and an amount which is based on 80% of the average of the closing prices of the shares of the Company on the five business days immediately preceding the date of grant.

The following table discloses the movements in the Company's share options under the 1992 Share Option Scheme during the year:

	<b>Date of grant</b>	<b>Exercisable period</b>	<b>Exercise price per share</b> <i>HK\$</i>	<b>Number of share options outstanding as at 1.1.2003 and 31.12.2003</b>
<i>Former directors</i>				
Yiu Chiu Fai	26.1.2000	26.1.2001 to 25.1.2010	0.3300	9,000,000
Lam Kong Yin, Patrick	26.1.2000	26.1.2001 to 25.1.2010	0.3300	9,000,000
Total				<u>18,000,000</u>
<i>Employees</i>				
	26.1.2000	26.1.2001 to 25.1.2010	0.3300	1,500,000
	3.2.2000	3.2.2001 to 2.2.2010	0.3648	10,000,000
	19.6.2000	19.6.2001 to 18.6.2010	0.3152	3,000,000
	28.7.2000	28.7.2001 to 27.7.2010	0.2784	9,000,000
Total				<u>23,500,000</u>
Total all categories				<u>41,500,000</u>

No option was granted, cancelled, exercised or lapsed under the 1992 Share Option Scheme during the year.

## 2002 Share Option Scheme

On 27 May 2002, a new share option scheme (the "2002 Share Option Scheme") was adopted and the 1992 Share Option Scheme was simultaneously terminated by the shareholders of the Company. Accordingly, no further share options can be granted under the 1992 Share Option Scheme.



The purpose of the 2002 Share Option Scheme is to enable the Group to grant options to selected participants as incentives or rewards for their contributions to the Group. The participants include (i) any eligible employee; (ii) any supplier of goods or services to any member of the Group or any entity in which any member of the Group holds any interest ("Invested Entity"); (iii) any customer of the Group or any Invested Entity; (iv) any person or entity that provides research, development or other technological support to the Group or any Invested Entity; (v) any shareholder or any member of the Group or any Invested Entity; and (vi) any company wholly owned by any participant. The 2002 Share Option Scheme will remain in force for a period commencing on 27 May 2002 and expiring at the close of business on the business day preceding the tenth anniversary.

The total number of shares which may be issued upon exercise of all options to be granted under the 2002 Share Option Scheme and any other scheme of the Company shall not in aggregate exceed 10% of the issued share capital of the Company as at the date on which the 2002 Share Option Scheme was adopted, without prior approval from the Company's shareholders. The total number of shares issued and to be issued upon exercise of the options granted and to be granted to each participant in any 12-month period up to and including the date of grant of options shall not exceed 1% of the shares in issue.

The subscription price will be determined by the directors, which shall not be less than the higher of the closing price of the shares as stated in the Stock Exchange's daily quotations sheets on the date of grant of option or the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five days immediately preceding the date of grant of option. Options may generally be exercised in whole or part at any time during the period commencing on the first business day from the date of grant of the option and expiring on the close of business on the last day of such period as determined by the directors and notified to the grantee (in any event such period must not be more than 10 years from the date of grant of the option).

The following table discloses the movements in the Company's share options under 2002 Share Option Scheme during the year:

	Date of grant	Exercisable period	Exercise price per share	Number of share options		
				Granted during the year	exercised during the year	Outstanding as at 31.12.2003
Employee	27.11.2003	27.11.2003 to 26.11.2013	HK\$0.20	853	(853)	-

On 27 November 2003, 853 ordinary shares were issued by the Company to the grantee upon exercising of share options granted under 2002 Share Option Scheme. The total cash proceeds received by the Company was HK\$170.60 which was credited to the share capital. The market value per share at exercise date was HK\$0.21. No option was cancelled or lapsed under the 2002 Share Option Scheme during the year.

There was no option outstanding under both the 1992 Share Option Scheme and the 2002 Share Option Scheme to the directors of the Company at any time during the year.

The options granted under the Company's share option schemes are not recognised in the financial statements until they are exercised. The directors consider that it is not appropriate to state the value of such options on the ground that there are limitations in the application of the Black-Scholes Option Pricing Model and the Binomial Model in the valuation of such options, especially given that the key assumption underlying these derivative valuation metrics – that the options valued can be sold in a secondary market transaction – is not valid because holders of such options may not sell such options, they may only exercise them. Accordingly, the directors believe that any valuation of such options would not be meaningful and may be misleading to the shareholders of the Company.

### ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Save as the share option schemes disclosed above, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the directors or chief executive of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the directors, chief executive, or any of their respective spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the year.

### DIRECTORS' INTERESTS IN CONTRACTS AND CONNECTED TRANSACTIONS

- (i) As at 31 December 2003, bank loan of approximately HK\$16,723,000 was guaranteed without charge by Henan Hongkong Finance Limited ("HHF"), a wholly owned subsidiary of Henan Hongkong Enterprises Limited ("HHE").
- (ii) The Group did not recognise any guaranteed profit receivable from HHF, details of which are set out in note 33 to the financial statements.

In the opinion of the independent non-executive directors, these transactions entered into by the Group, if applicable, were:

- (a) in the ordinary and usual course of business of the Group;
- (b) on normal commercial terms or on terms that are fair and reasonable so far as the shareholders of the Company are concerned; and
- (c) in accordance with the terms of the agreements governing such transactions or on terms no less favourable than terms available to third parties.

Save as disclosed in note 21 to the financial statements, no contract of significance in relation to the Group's business to which the Company or its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.



## PERSONS WHO HAVE INTERESTS OR SHORT POSITIONS WHICH ARE DISCLOSEABLE UNDER DIVISIONS 2 AND 3 OF PART XV OF THE SFO

Save as disclosed below, as at 31 December 2003, so far as is known to the directors, no other person had, or was deemed or taken to have an interest or short position in the securities of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO.

Name of shareholders	Number of shares	Approximate percentage of existing issued share capital of the Company
Kwong Jimmy Cheung Tim	300,000,000	11.3%
HHE (note)	370,000,000	13.9%

Note: The interests disclosed under HHE represent its direct interest in the Company of 144,000 shares together with its deemed interests in 369,856,000 shares, held by its wholly owned subsidiary, Fulham Associates Limited. HHE is wholly-owned by Henan Provincial Government of the People's Republic of China ("PRC").

## SUBSEQUENT EVENTS

Details of significant events that have taken place subsequent to the balance sheet date are set out in note 34 to the financial statements.

## CORPORATE GOVERNANCE

The Company has complied throughout the year with the Code of Best Practice as set out in Appendix 14 of the Listing Rules, except that the independent non-executive directors are not appointed for specific terms but are subject to retirement by rotation and re-election at the annual general meeting in accordance with the Company's Articles of Association.

## MAJOR SUPPLIERS AND CUSTOMERS

The Group's largest supplier contributed 25% to the total purchases for the year and the aggregate amount of purchases attributable to the Group's top five suppliers represented 58% of the Group's total purchases.

The Group's largest customer accounted for 14% of the Group's turnover (excluding guaranteed return) and 54% of the total turnover (excluding guaranteed return) of the Group was attributable to the Group's top five customers.

None of the directors, their associates or any shareholders of the Company (which to the knowledge of the directors own more than 5% of the Company's issued share capital) had any interest in the Group's major suppliers or customers noted above.

### AUDIT COMMITTEE

The audit committee currently comprises two independent non-executive directors and a non-executive director and reports to the board of directors. The audit committee provides an important link between the Board and the Company's auditors on matters coming within the scope of the group audit. The audit committee meets with Group's senior management and auditors regularly to review the effectiveness of the internal control systems and the interim and annual reports of the Group. Two meetings were held during the current financial year.

### AUDITORS

HLB Hodgson Impey Cheng were first appointed as auditors of the Company in 2002 upon the resignation of Deloitte Touche Tohmatsu with effect from 15 October 2002.

Messrs. HLB Hodgson Impey Cheng retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of HLB Hodgson Impey Cheng as the auditors of the Company for the ensuing year is to be proposed at the forthcoming annual general meeting.

On behalf of the Board

**Chan Tat Chee**

*Director*

Hong Kong, 23 April 2004